

**Fiscal Management Division
Statewide Fiscal Services Dept.
Expenditure Audit Section
Auditor: Raymond McClintock**

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Post-Payment Audit of the Texas Department of Transportation



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Texas Department of Transportation (Department) payroll, purchase, travel and grant transactions that processed through the Uniform Statewide Accounting System (USAS) and the Standardized Payroll/Personnel Reporting System (SPRS) during the period beginning June 1, 2015, through May 31, 2016, to determine compliance with applicable state laws.

The Department receives appendices with the full report that includes a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. The Department should implement the recommendations listed in the Detailed Findings of this report. It is the Department's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Department's documents comply in the future. The Department must ensure that the findings discussed in this report are resolved.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

Payroll transactions and payroll deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), the [Texas Payroll/Personnel Resource](#) and other pertinent statutes.

The audit identified:

- Longevity underpayment.

A limited sample of voluntary contributions was also audited.

- No issues were identified.

Purchase transactions

Purchase transactions were audited for compliance with the GAA, [eXpendit](#), the [State of Texas Procurement Manual](#) and other pertinent statutes.

The audit identified:

- Missing Governor's approval.
- Prompt payment and scheduling errors.

Purchase cards

Purchase card transactions were audited for compliance with the GAA, [eXpendit](#) and other pertinent statutes.

The audit identified:

- Term contract not utilized.

Travel cards

Travel card transactions were audited for compliance with the GAA, [Texttravel](#) and other pertinent statutes.

The audit identified:

- Travel cards used for personal use.

Special reports

The audit included a review of several ad-hoc reports to test compliance with a wide variety of topics.

The audit identified:

- Duplicate payments.
- Incorrect billing account number.

Security

The audit included a security review to identify any of the Department's employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner.

- No issues were identified.

Internal control structure

The Department's internal control structure was reviewed. The review was limited to obtaining an understanding of the Department's controls sufficient to plan the audit and did not include tests of control policies and procedures.

The audit identified:

- Four employees can pick up warrants from the Comptroller's office and approve vouchers.
- One employee can adjust payment instructions in TINS and approve vouchers.

Fixed assets

The audit included a review of a limited number of fixed assets to test for proper tracking in the State Property Accounting system and the Department's internal system. The disposed assets reported 328 assets as missing or stolen with a net book value of \$992,338.66. The thefts of the assets were reported to the police and police records are available.

- No issues were identified.

Prior post-payment audit and current audit recurring findings

A prior post-payment audit of the Department's payroll, purchase and travel transactions was concluded on Aug. 18, 2011.

During the current audit, the following recurring findings were identified:

- Longevity underpayments
- Duplicate payments
- Prompt payment and scheduling issues
- Employees who can process and release payments in USAS.

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DETAILED FINDINGS — PAYROLL

Longevity Underpayment

Finding

We identified one employee outside the audit sample who noted prior state service on the job application but did not receive credit for this time. The Department's procedures include obtaining prior state service verifications whenever an employee indicates previous state employment. In this instance, the Department overlooked the employee's previous state employment while reviewing the application.

The additional service time resulted in an underpayment of longevity pay in the amount of \$540 for the duration of employment with the Department. The total amount of the underpayment is outside of the audit period. Because of the audit, the Department verified the additional prior state service, made the required adjustments and compensated the employee for the underpayment of longevity pay.

When an agency hires an employee, the agency must research if the employee has previous state employment. If an employee has prior state employment, the agency must confirm the amount of lifetime service credit and properly record it or run the risk of underpaying longevity pay. See [Texas Payroll/Personnel Resource – Longevity Pay](#).

We provided the Department with the schedule and calculations of the longevity underpayment during fieldwork. The schedule and calculations are not included with this report due to confidentiality issues.

Recommendation/Requirement

The Department must compensate the employee who was underpaid longevity pay. The Department must review all current and new employee job applications and resumes for prior state service and ensure it is properly recorded.

Department Response

Summary of correction:

- *Verified additional prior state service with Parks & Wildlife.*
- *Completed before & after screenshot of state time*
- *Completed a spreadsheet displaying additional longevity and vacation accruals from new found state time. Note: The Comptroller's office validated the longevity/vacation owed back was correct.*
- *Submitted to Financial Management Division for longevity payment on Dec. 12, 2016.*
- *Financial Management Division paid a portion of longevity owed and submitted a Miscellaneous Claims Form to the Comptroller's office to pay the rest.*
- *Added the vacation hours owed from the additional time found to the employee's time sheet on Dec. 12, 2016.*

Ensuring Compliance:

- *Discussed the issue found with the applicable HR staff regarding prior state service and the importance of making sure it is validated, entered timely and accurately.*
- *HRD will send an email this week (week of Aug. 21st) to HR staff reminding them of the procedures for prior state service and/or new found state service time.*
- *In the event an employee notifies HRD of new found state time, we will validate and process the newly found time as quickly as possible in an effort to minimize the amount of longevity and accruals owed back to the employee.*

DETAILED FINDINGS — PURCHASE

Missing Governor's Approval

Finding

We noted three transactions paying two vendors for consulting services which did not follow the correct procurement process. The two contracts were each worth more than \$15,000, and are therefore considered major consulting services contracts per [Texas Government Code Section 2254.021\(2\)](#).

[Texas Government Code Section 2254.028\(a\)](#) states that before entering into a major consulting services contract, a state agency must notify the Legislative Budget Board (LBB) and the Governor's Budget and Planning office that it plans to enter into a contract, and the agency must obtain a finding of fact from the Governor's office that the consulting services are necessary. The Department did not submit this notification to the LBB or Governor's office and did not obtain the required finding of fact from the Governor's office.

[Texas Government Code Sections 2254.029](#) and [2254.030](#) state that an agency must publish in the Texas Register information regarding the contract both before and after entering into the contract. The Department did not submit this information to the Texas Register as required by statute.

The Department stated that these contracts were TXMAS contracts, and that the above requirements are not applicable to these contracts. However, the requirements in statute do not provide for any exceptions based on the method of procurement.

Recommendation/Requirement

Per [Texas Government Code Section 2254.028\(b\)](#), a major consulting services contract that a state agency enters into without first obtaining the finding of fact from the Governor's office is void. If the Department determines that these services are necessary, it must submit the notification to the LBB and the Governor's office and receive the finding of fact from the Governor's office before entering into a new contract for these services.

Department Response

Although TxDOT reserves the right to non-concur with the conclusions that certain TxMAS agreements were entered or used as consulting agreements, as that term is provided in TxGov Code 2254, TxDOT has restructured its internal organization to have a separate Procurement Division and Contracting Division that report to the same operational chief. May 2016

Signature authority has also been revised so that the Executive Director executes any purchase orders valued \$1M or greater. Feb. 2017

TxDOT has also placed its oversight of process improvement initiatives under the Director of Strategy and Innovation, who will investigate and share best practices for process

improvement. In cases where outside help may be needed, a determination is made in consultation with the Contract Services Division and the Procurement Division whether to engage consultants or business services providers for these process improvement initiatives and the appropriate method of acquisition. June 2017

Comptroller Response

The TXMAS consulting services contracts have been discontinued and are no longer available for use by state agencies. Additionally, according to the supporting documentation provided by the Department during the audit, the two Department contracts for consulting services should have expired in November 2016 and April 2017.

All future consulting service contracts must follow the requirements in Texas Government Code Sections 2254.028(a), 2254.029 and 2254.030. All purchases using TXMAS contracts must follow all other applicable procurement laws in addition to the TXMAS purchasing requirements.

Prompt Payment and Scheduling

Finding — Prompt Payment

According to the prompt payment law, [Texas Government Code Section 2251.021\(a\)](#), a governmental entity's payment is overdue on the 31st day after the later of:

- The date the governmental entity receives the goods under the contract,
- The date the performance of the service under the contract is completed, or
- The date the governmental entity receives an invoice for the goods or service.

The Comptroller's office computes and automatically pays any interest due under the prompt payment law when the Comptroller's office is responsible for paying the principal amount on behalf of the agency. See [Texas Government Code Section 2251.026](#). During the audit period, the Department paid vendors \$402,573.75 in interest.

In our sample, we identified one purchase transaction that paid late. The amount was minimal. According to the Department, this occurred due to oversight when processing the payments.

Finding — Scheduling

[Texas Government Code Section 2155.382\(d\)](#) authorizes the Comptroller to allow or require state agencies to schedule payments that the Comptroller will make to a vendor. The Comptroller must prescribe the circumstances under which advance scheduling of payments is allowed or required; however, the Comptroller must require advance scheduling of payments when it is advantageous to the state.

We identified two purchase transactions that the Department paid early, resulting in interest loss (\$5.63) to the State Treasury. The Department stated this occurred due to oversight when scheduling the payment.

Recommendation/Requirement

The Department must review its procedures to ensure that it submits payment information for processing as well as releasing the payment in a timely manner to avoid incurring interest liabilities. In addition, the Department must verify that proper due dates are entered to ensure that if interest is due, it is paid correctly to the vendors.

To minimize the loss of earned interest to the State Treasury, the Department must schedule all payments that are greater than \$5,000 for the latest possible distribution and in accordance with its purchasing agreements as described in eXpendit: [Prompt Payment and Payment Scheduling](#).

Department Response

The Department agrees with the recommendations. TxDOT will work with the Comptroller's office in providing training courses to all existing AP staff regarding payment scheduling and prompt payment rules. The Department will require new AP staff to receive this training as part of an orientation program. We will coordinate with other Division management offices to ensure their end users are trained to use the correct invoice received date on all interface payments.

DETAILED FINDINGS — PURCHASE CARDS

Term Contract Not Utilized

Finding

In our review of purchase cards, we found that the Department was not using available contracts (Term, TXMAS, etc.) and the Department did not provide proper justification for not doing so.

We noted 31 transactions in which the Department did not purchase items which are available through the State's authorized set-aside programs.

- For 28 transactions, the Department did not purchase items which are available through the Texas Smart Buy TXMAS contract
- For 3 transactions, the Department did not purchase items available through the Texas Smart Buy Term contract.

The State of Texas Procurement Manual requires agencies to access and utilize the commodities and services provided by the State's authorized set-aside programs. In addition, the Department's purchasing manual requires available products or services to be purchased from the State use program unless the needed products or services meet exceptions related to quantity, quality and delivery time.

The Department's purchasing manual requires the immediate need for the product or service to be documented using a standard agency form. For the 31 transactions noted above, we noted 21 transactions that did not include the required form. The remaining 10 transactions included the standard form but did not describe why there was an immediate need for the product or service to justify not using the State's authorized set-aside programs.

Recommendation/Requirement

The Department should improve processes to ensure procurement card users purchase products or services available through the State's authorized set-aside programs. If products or services available through the set-aside contracts meet the exceptions related to quantity, quality and delivery time, the procurement card user should include proper justification with the transaction to document why the set-aside contracts were not utilized.

Department Response

The Procurement Division's (PRO) online training course (PUR 700) for purchasing card (PCard) holders (purchasers and non-purchasers) directs the card holder to determine if the item they need is available from a state set-aside program, including TIBH prior to completing a transaction. Agency personnel cannot receive a PCard until they have completed the agency's PCard training course.

The requirement that a PCard holder determine if an item is available under a state set-aside program is also documented in the PCard Quick Reference Guide that is available on TxDOT's internal website, Crossroads. PRO's Feb. 2014

In addition TxDOT's Purchasing Manual includes provisions requiring the use of state set-aside vendors (TIBH, Texas Correctional Industries). The Purchasing Manual is available online to anyone within the agency via Crossroads. Feb. 2016.

Comptroller Response

The existing procedures cited in the Department's response must be enhanced to ensure that term contracts are used whenever they are available. In addition to having the manual available to its staff, the Department should provide ongoing training to its purchasing staff on the use of state set-aside vendors.

DETAILED FINDINGS — TRAVEL CARDS

Unauthorized Use of State-Issued Travel Card

Finding

During our review of travel card expenditures, we identified several instances where an employee used the state-issued travel card to purchase personal items. The Department indicated that its internal procedures require monitoring of expenditures made with the state-issued credit card, but in these instances its review did not detect the purchase of personal items. The Department stated it would modify its monitoring process to ensure personal transactions do not occur in the future.

According to [34 Texas Administrative Code Section 20.413](#), state agencies shall cancel a state-issued travel credit card when the employee:

- Fails to timely pay the charges,
- Uses the card for personal transactions, or
- Is responsible for any other misuse of the credit card.

Recommendation/Requirement

The Department must ensure that all state-issued travel card transactions are properly reviewed. In addition, the Department must ensure that its travel cards are used in accordance with applicable rules and requirements. The current state credit card administrator, Citibank, offers reports that can assist the Department in monitoring employee credit card usage. The Department should consider offering periodic training to its credit card holders on proper use of state-issued credit cards.

Department Response

The Travel section of Financial Management will send out an email reminder to travel coordinators to remind their travelers that the state issued travel card is for business use only.

Beginning September 1st, Citibank reports for failure to pay timely and use of personal transactions will be run and sent to each District Engineer/Division Director so that they can monitor the usage of the travel card. Cards will be canceled for failure to comply with the rules.

DETAILED FINDINGS — SPECIAL REPORTS

Duplicate Payments

Finding

We ran a report outside of the sample to identify potential duplicate payments processed by the Department during the audit period. During our review of this report, we identified five potential duplicate payments. The total amount of the overpayments was \$5,096.41. In response to our bringing this to the attention of the Department, they agreed and stated that the corrections are in process.

The cause of the five duplicate payments was due to a PeopleSoft flag that allowed an invoice number to process more than once as long as the service dates were different, mainly for recurring utilities. To keep this from happening in the future, the Department modified the duplicate invoice checking criteria to remove the invoice date so the system will not flag these as potential duplicates and prevent posting.

The Department has provided documentation to verify that these duplicate payments have been refunded to the Department.

Recommendation/Requirement

The Department must enhance its procedures to identify potential duplicate invoices to avoid making duplicate payments to vendors and continue to monitor the revised procedures to make sure that additional duplicate payments are not processed. The accounting staff should ensure that the invoice and payment are reconciled.

Department Response

The Department agrees with the recommendations. TxDOT modified its procedures for creating control groups for one of its regional offices in April 2017. The duplicate checking criteria procedures were modified to remove the invoice date field, thereby allowing the system to identify duplicate invoices that may not necessarily have the same invoice date.

In 2013, the Department implemented a monthly duplicate identification report. Potential payments identified in the report are sent to AP managers for research, comment and necessary action. The samples discovered in the audit report were previously identified by TxDOT's Monthly Duplicate Payments Report.

Incorrect Billing Account Number

Finding

We ran a report outside of the sample to identify potential payments processed incorrectly to third-party vendors by the Department for the audit period. During our review of this report, we identified 1,637 payments processed incorrectly to the state's payment card vendor. The incorrectly coded payments totaled \$25,361,967.52. The Department failed to provide the correct billing account number as prescribed by [Processing Third-Party Transactions in USAS for Payment/ Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)](#) and [USAS and CAPPs Financials Invoice Number Field Requirements \(FPP E.023\)](#). As a result, the vendor may be unable to post payments directly to the Department's procurement and travel card accounts; this may further result in unidentified and delayed payment postings and potential lost rebate earnings.

Recommendation/Requirement

The Department must enhance its procedures to ensure payments for third-party transactions are processed in accordance with [FPP A.043](#) and [FPP E.023](#). We recommend the Department review payment card statements to ensure the payments were posted correctly to avoid any account delinquency or reconciliation issues.

Department Response

The Department agrees with this recommendation. TxDOT is implementing a configuration change to the Payment Card System (PCS), which will automatically insert a dash in the invoice number field between the 10-digit account number and other information, where there is currently a space.

The Department reports no account delinquency or reconciliation issues with Citibank resulting from its current invoice naming convention where a space is used instead of a dash.

Comptroller Response

The proposed solution offered by the Department will correct one of the types of errors made when entering the billing account number entries. However, there were other types of errors made which resulted in an incorrect billing account number. The Department must implement further measures to ensure that all of the billing account numbers are entered correctly according to the instructions in [FPP A.043](#) and [FPP E.023](#) on future payments.

DETAILED FINDINGS — EXPENDITURE APPROVALS

Control Weakness Over Expenditure Processing

Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Department placed on its accounting staff members' abilities to process expenditures. We reviewed the Department's security in USAS, SPRS, TINS and voucher signature cards that were in effect on Sept. 20, 2016. We did not review or test any internal or compensating controls that the Department may have relating to USAS, SPRS or TINS security or internal transaction approvals.

Four employees can pick up warrants from the Comptroller's office and approve vouchers and one of these same employees can adjust payment instructions in TINS and approve vouchers. The Department was provided with a schedule of this finding during fieldwork.

We ran a report to see whether any of the Department's payment documents processed through USAS and SPRS during the audit period because of the action of only one person. No payments were identified.

To reduce risks to state funds, agencies should have controls over expenditure processing that segregate each accounting task to the greatest extent practical. Ideally, no individual should be able to enter or alter and then release payments or other accounting transactions within the statewide financial systems without another person's involvement.

Recommendation/Requirement

The Department should review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without electronic oversight. The Department should request that a preventative control be enforced for all of its transactions in USAS. If an agency requests the control, an edit will prevent the release of a document that the same user entered or altered. See [USAS Accounting and Payment Control \(B.005\)](#).

Department Response

The people identified by CPA, with the exception of one, are all in management and do not have access to create/process vouchers in PeopleSoft or USAS. These individuals only approve agency batches and cannot enter or alter payments, and only serve as an emergency backup for warrant pick up. The agency has a contracted 3rd party courier that is responsible for daily warrant pick up. The one non-management individual identified had their rights removed for approving payment vouchers, setting up vendors and warrant pick up.

Comptroller Response

The three additional individuals addressed in this finding may not have the ability to create vouchers within the Department's system, but they can create a paper expedite voucher, approve the voucher, and request and pick up an expedited warrant. Because of this risk, the Department should consider removing the users from the Agency Authorization for Warrant Pickup list or their ability to approve vouchers.